



City Council Report

Date: May 23, 2013
To: City Council
Through: Chuck Odom, Senior Executive Manager
From: Candace Cannistraro, Management and Budget Director
Kari Kent, Deputy City Manager
John Pombier, Deputy City Manager
Subject: Fiscal Year 2013/2014 Utility Rate Adjustments

Strategic Initiatives



Purpose and Recommendation

The purpose of this report is to provide support for the utility rate adjustments proposed for the fiscal year ending June 30, 2014 (FY 2013/14).

Each year, staff is given the general direction to review costs of capital, as well as the fixed and variable costs of operation and maintenance and assess the financial position of the enterprise fund. Staff then determines the required funds needed to maintain an 8-10% ending fund balance in accordance with city fiscal policy.

The refinancing of existing debt service in FY 2011/12 allowed the City to forego utility rate adjustments in FY 2012/13. The projected length of the recovery from the recession is longer and slower than originally projected. It is necessary to implement minimum utility rate adjustments in FY 2013/14 in order to maintain the targeted fund balance reserve over the course of the forecast. The following rate adjustments will be applied uniformly to all utility program rates and service classes, unless otherwise noted.

These are the proposed utility rate adjustments along with the change in the average monthly residential bill:

	Prior Year Projection	FY2013/14 Proposal	FY2013/14 Average monthly residential change
Electric	0.0%	0.0%	\$0.00
Natural Gas	0.0%	0.0%	\$0.00
Water	0.0%	2.0%	\$0.76
Wastewater	0.0%	2.0%	\$0.50
Solid Waste*	0.0%	2.0%	\$0.48
District Cooling	0.0%	0.0%	\$0.00

*FY 2013/14 for Solid Waste is for residential only

In total, the adjustments outlined in this report will result in \$3.5M in additional revenue in FY 2013/14.

The City of Mesa conducted a survey during March 2013 to determine the average financial impact of the rate adjustments on residential customers (See Attachment 1). The survey identified the amount of revenue generated from property taxes, city sales tax, and utility rates (excluding electric and natural gas) by Mesa and six other local municipalities. Survey results revealed Mesa's overall cost is currently the third lowest city. Mesa will remain the third lowest city for average homeowner charges if the rate recommendations are approved.

The adjusted revenues will be used to cover the anticipated expenses over the forecast period in more detail. Such forecasted costs include increasing costs of Central Arizona Project (CAP) water, the initial investments to capture long-term savings in the use of Compressed Natural Gas (CNG) for the Solid Waste fleet and other infrastructure strategic planning for future utility resource needs. Rate increases in health and retirement benefit programs with some components increasing as much as 11% were also part of future cost considerations.

The Enterprise unrestricted fund balance is not projected to be less than 8% during the forecast period. The level of the fund balance reserve is a factor considered by bond rating agencies when they are reviewing the City of Mesa. The bond rating affects the interest rate the City experiences when issuing bonds. The better the bond rating, the lower the interest rate and therefore the less money the City needs to pay.

In addition to the rate adjustments, there are also some specific changes to verbiage in the rate schedules that are being proposed. Those changes in wording follow:

Energy Resources

Residential Electric Service Schedule

It is proposed that clarifications to the language within the residential electric utility schedule be made. These are corrections related to bill uniformity among the various city utilities and have no financial impact.

Residential Gas Service Schedules

Clarifications in language within residential gas utility schedules residential gas service (G1.1) and residential gas service Magma (GM1.1 and GM1.2) are proposed. These are corrections related to bill uniformity among the various city utilities and have no financial impact.

Interdepartmental Gas Schedule References

Schedules applicable to Interdepartmental gas rates reference commercial schedules that should be used, less taxes. Two Interdepartmental rate schedules currently contain incorrect references. It is proposed that corrections be made to these two rates (G6.2 and Interdepartmental Gas Service-Air Conditioning and G6.10

Interdepartmental Gas Service-Large General). As there are no Interdepartmental customers currently on either of these rates, there will be no financial impact.

Commercial Compressed Natural Gas Schedules

Currently, Mesa General Service Schedules for Compressed Natural Gas Service to customers in both Magma and Mesa have legacy language restricting such customers from the resale of natural gas. Compressed natural gas (CNG) has both a favorable economic and emissions benefit compared with many other fuel types. Nationwide entities such as Waste Management, regional transit authorities, municipal or investor owned gas companies, and municipalities with fleets that include CNG vehicles have obtained partial recovery of their investment in on-site stations by permitting broad or limited access to others and selling CNG to them. It is proposed that the language restricting the resale of natural gas be stricken from Schedules G3.9 and GM3.9 to clarify that compression and sale of CNG is not restricted.

Terms and Conditions of Service- High Pressure Gas Service

It is proposed that a correction be made in the definition of what constitutes high pressure gas service. This correction is to the technical definition only and will have no impact on revenues or customer charges. The language that high pressure service is available only to non-residential customers will be deleted as high pressure service is provided to residential customers also.

Water Resources

Service Line Installation and Repair Fees

It is proposed that the utility service fees associated with installation of water and installation and repair of wastewater services shall be eliminated. Installation and repair shall be the sole responsibility of the customer.

Lateral Blockage Removal Fee

To recover the cost of crews being called to a private residence to flush private lateral sewers a Lateral Blockage Removal Fee is proposed. While Water Resources attempts to triage these calls to ensure that a private plumber is called first, this does not always happen. This fee will provide an economic incentive for the homeowner to call a private plumber before requesting City crews. If the blockage is found to be within the private lateral sewer, for which the customer is responsible, the fee will be charged. If the blockage is found to be within the public main, the fee will not be charged.

Backflow Inspection Fee

Backflow devices are required for certain customer types to protect the public water supply from contamination. While annual backflow inspections are required by City Code, some customers do not comply with this requirement. A Backflow Inspection Fee is proposed to encourage compliance. After a third notice has been sent to the customer and the customer remains out-of-compliance, the Water Resources Department will test the backflow device and include the Backflow Inspection Fee on the customer's utility bill. The fee is set at a level that is higher than that charged by the typical private backflow inspection company, so that customers have an economic incentive to use private contractors and to stay in compliance with City Code, affording enhanced protection of the public water supply.

Interdepartmental Water Usage Rate

It is proposed that the water rate used for City of Mesa Departments be adjusted to a lower, more direct-cost-only rate. This will assist the City in continuing to provide programming and maintenance at current service levels.

Billing Simplification Initiative

In addition, Water and Energy Resources are proposing non-substantive edits to certain utility rate schedules based on recent efforts to clarify and simplify customer billing statements. These edits will generally make the terminology describing various rates, fees, and charges in the rate schedules and the customer billings more consistent and easier to reconcile, resulting in additional transparency for Mesa Utility customers.

Alternatives

City Council may approve the rate adjustments as proposed or may modify the adjustments. The proposed rate adjustments have been included in the proposed FY 2013/14 annual budget. If the proposed rates are modified in a manner that achieves less net revenue to the City, the following outcome would result or action combinations would need to occur.

1. The level of the Enterprise fund balance reserve for FY 2013/14 would be lower, requiring higher forecasted rate increases in the future in order to maintain targeted fund balance reserves in each year of the forecast period.
2. Alternate resources would need to be identified in order to maintain the projected fund balance reserve in FY 2013/14.
3. A reduced expenditure budget would need to be identified in order to maintain the projected fund balance reserve in FY 2013/14.

Fiscal Impacts

Council adopted a notice of intention on 05/06/13 to introduce resolutions and ordinances on 06/03/13 and set the date for a public hearing and action on the rate adjustments for 06/17/13 for district cooling, electric, irrigation water, natural gas, solid waste, reclaimed water, wastewater, and water utilities. The utility rate adjustments will be effective for the billing of utilities on or after 07/31/13.

In summary, the utility rate adjustments will generate a net of \$3.5M in additional revenue for FY 2013/14.

The following table outlines the additional revenue anticipated:

	Additional Revenues
Electric	\$0
Gas	\$0
Water	\$1,550,000
Wastewater	\$1,237,000
Solid Waste	\$709,000
<u>District Cooling</u>	<u>\$0</u>
Total	\$3,496,000

Attachments:

1. Average Homeowner's Charges Survey – Local Comparisons
2. Twenty-five Year Residential Rate History
3. Ordinances, resolutions, and rate schedules

AVERAGE HOMEOWNER'S CHARGES SURVEY								
	CITY PROPERTY TAXES (1, 6)		CITY SALES TAXES (2, 7)	SOLID WASTE CHARGES (3)	WATER CHARGES (4)	WASTEWATER CHARGE (5)	ANNUAL TOTAL	PERCENTAGE OF MESA CURRENT
	PRIMARY	SECONDARY						
MESA-Proposed	median home value (2012)	\$100,600						
Rate	\$0.00	\$0.8636	1.75%	\$24.37	\$38.98	\$25.53		
Annual Cost	\$0.00	\$86.88	\$494.18	\$292.41	\$467.74	\$306.36	\$1,647.57	103.1%
MESA-Current	median home value (2011)	\$114,800						
Rate	\$0.0000	\$0.5104	1.75%	\$23.88	\$38.21	\$25.03		
Annual Cost	\$0.00	\$58.59	\$494.18	\$286.56	\$458.57	\$300.36	\$1,598.26	100.0%
CHANDLER	median home value (2011)	\$153,200						
Rate	\$0.3292	\$0.9422	1.50%	\$15.07	\$25.93	\$22.17		
Annual Cost	\$35.98	\$144.35	\$576.19	\$180.84	\$311.16	\$266.04	\$1,514.56	94.8%
GILBERT	median home value (2011)	\$157,200						
Rate	\$0.0000	\$1.1500	1.50%	\$17.30	\$25.13	\$22.14		
Annual Cost	\$0.00	\$180.78	\$505.69	\$207.60	\$301.56	\$265.68	\$1,461.31	91.4%
GLENDALE	median home value (2011)	\$90,000						
Rate	\$0.2252	\$1.6753	2.90%	\$16.30	\$34.74	\$32.25		
Annual Cost	\$24.61	\$150.78	\$1,044.21	\$195.60	\$416.88	\$387.00	\$2,219.08	138.8%
PHOENIX	median home value (2011)	\$90,100						
Rate	\$1.2397	\$0.5803	2.00%	\$26.85	\$31.44	\$22.19		
Annual Cost	\$135.50	\$52.29	\$702.55	\$322.20	\$377.28	\$266.28	\$1,856.09	116.1%
SCOTTSDALE	median home value (2011)	\$249,500						
Rate	\$0.5027	\$0.7225	1.65%	\$16.00	\$36.78	\$18.94		
Annual Cost	\$54.95	\$180.26	\$556.25	\$192.00	\$441.36	\$227.28	\$1,652.10	103.4%
TEMPE	median home value (2011)	\$149,500						
Rate	\$0.7862	\$1.3552	2.00%	\$19.98	\$34.47	\$26.16		
Annual Cost	\$85.93	\$202.60	\$674.25	\$239.76	\$413.64	\$313.90	\$1,930.08	120.8%

Notes:

1. Single family home with median value for each respective city
(Median Full Cash Value) x 10% x (Tax Rate/100) Source: Maricopa County Assessor's Office
2. Annual Maricopa County income of: \$62,200 Source: 2013 Median Family Income, Phoenix-Mesa-Glendale MSA - HUD User website
3. Charge for biweekly garbage (and recyclables where applicable) collection using 90 gallon barrels. The Solid Waste residential charges include a \$0.56 Green and Clean fee for Mesa. Other city's environmental fees are also included as applicable.
4. Based on Mesa's average monthly residential water use for the most recent twelve months.
5. Winter Water Average formulas are applied in cities where known. Changes in fees are due to both rate and formula changes.
6. Primary and Secondary Tax Rates reflect the Tax Rates as listed on the County Treasurer's website, which corresponds to the effective tax rates.
7. The city sales tax rate listed is for retail sales. Mesa does not collect sales tax on the sale of food for consumption at home.
If two cities show the same retail sales tax rate, the estimated sales tax dollar amount may be different because some cities have different tax rates for non-retail items.

TWENTY-FIVE YEAR RESIDENTIAL RATE HISTORY
 (% of residential rate adjustment each year)

FISCAL YEAR	ELECTRIC (6)	NATURAL GAS (5)	WATER	WASTEWATER	SOLID WASTE
FY'89/90	2.00%	5.00%	5.00%	12.50%	3.00%
FY'90/91	5.65%	4.00%	6.50%	12.00%	5.00%
FY'91/92	3.00%	0.00%	4.50%	5.00%	4.00%
FY'92/93	1.25%	0.00%	2.31%	7.75%	10.00%
FY'93/94 (1)	1.50%	0.00%	4.00%	3.94%	15.30%
FY'94/95 (2)	0.00%	0.00%	3.68%	0.00%	0.00%
FY'95/96 (3)	0.00%	0.00%	8.38%	0.00%	0.00%
FY'96/97	0.00%	0.00%	0.00%	0.00%	0.00%
FY'97/98 (4)	0.00%	3.20%	5.30%	5.10%	7.00%
FY'98/99	0.00%	0.00%	0.00%	0.00%	0.00%
FY'99/00	0.00%	7.13%	5.00%	5.00%	0.00%
FY'00/01	0.00%	3.00%	3.00%	3.00%	3.30%
FY'01/02	0.00%	6.00%	4.00%	4.00%	6.30%
FY'02/03	0.00%	6.00%	5.00%	5.00%	6.00%
FY'03/04	2.00%	3.00%	4.00%	5.00%	5.00%
FY'04/05	0.00%	4.00%	4.50%	6.00%	5.00%
FY'05/06	0.00%	5.00%	5.00%	5.00%	5.00%
FY'06/07	0.00%	5.00%	6.60%	5.00%	5.00%
FY'07/08	0.00%	5.00%	4.50%	7.00%	5.00%
FY'08/09	0.00%	3.00%	3.00%	4.50%	5.50%
FY'09/10	0.00%	3.00%	3.40%	6.50%	0.00%
FY'10/11	0.00%	2.50%	5.50%	4.50%	0.00%
FY'11/12	0.00%	2.50%	6.80%	5.80%	0.00%
FY'12/13	0.00%	0.00%	0.00%	0.00%	0.00%
FY'13/14	0.00%	0.00%	2.00%	2.00%	2.00%

Notes:

1. Solid Waste - Net change of 15.3%. Increased from \$12.35 to \$15.75 on 7/1/93. Reduced to \$14.25 on 12/1/93.
2. Water - Net average annual adjustment for water customers in the Western Zone customers only.
3. Water - 8.38% Net average annual increase for residential water customers in the Western Zone only.
4. Water - Balancing of water rates completed City-wide. Percentage shown is composite of changes made to the previous Western, Eastern and RWCD zones.
5. Natural Gas - The rate of increase for natural gas services could be higher (or lower) depending on the price of the natural gas resulting from variations in market prices and the City's gas supply contracts.
6. Electric - The rate of increase for electric services could be higher (or lower) depending on the price of the purchased power resulting from variations in market prices and the City's purchased power supply contracts.